

CASS COUNTY MEMORIAL HOSPITAL

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2015 AND 2014

CASS COUNTY MEMORIAL HOSPITAL

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CASS COUNTY MEMORIAL HOSPITAL
Officials
June 30, 2015

| <u>Board of Trustees:</u> | <u>Address</u> | <u>Term Expires</u> |
|-----------------------------------------|----------------|---------------------|
| Ned Brown, Chairman | Atlantic, Iowa | 2020 |
| Jerry Putnam, Vice-Chairman | Griswold, Iowa | 2020 |
| Leanne Pellett, Secretary and Treasurer | Atlantic, Iowa | 2020 |
| John Molgaard | Atlantic, Iowa | 2016 |
| Phyllis Stakey | Massena, Iowa | 2016 |
| Roger Herring | Atlantic, Iowa | 2018 |
| Julie Pollock | Anita, Iowa | 2018 |

Administrator/CEO:

| | |
|---------------|----------------|
| Todd Hudspeth | Atlantic, Iowa |
|---------------|----------------|

Assistant Administrator/CFO:

Susan Daniels
(Resigned January, 2015)

| | |
|---------------------------------------|---------------|
| Abbey Stangl (Started March, 2015) | Manning, Iowa |
|---------------------------------------|---------------|

Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Cass County Memorial Hospital
Atlantic, Iowa

Report on the Financial Statements

We have audited the accompanying statements of net position of Cass County Memorial Hospital as of June 30, 2015 and 2014 and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Board of Trustees
Cass County Memorial Hospital

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Bases for Qualified Opinion

The financial statements do not include an estimate of an Other Post Employment Benefits (OPEB) liability for an implicit health insurance premium rate subsidy resulting from the legal requirement to allow employees retiring after age 55 to remain on the Hospital's healthcare plan until age 65. Accounting principles generally accepted in the United States of America require that any material liability resulting from this OPEB requirement be included in the financial statements (Note P).

The financial statements do not include financial data for the Hospital's legally separate component units, Cass County Health System Foundation and Cass County Medical Clinics. Accounting principles generally accepted in the United States of America require the financial data for the component units to be reported with the financial data of the Hospital unless the Hospital also issues financial statements for the financial reporting entity that include the financial data for its component unit. The Hospital has not issued such reporting entity financial statements (Note A).

Qualified Opinion

In our opinion, except for the effect of not including an estimated OPEB liability for the implicit health insurance premium rate subsidy and the effect of omitting the discretely presented and blended component units, as discussed in the previous section, the financial statements referred to above present fairly in all material respects, the financial position of Cass County Memorial Hospital as of June 30, 2015 and 2014 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note P to the financial statements, Cass County Memorial Hospital adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis, the Budgetary Comparison Information, and the Schedules of the Hospital's Proportionate Share of the Net Pension Liability and of Hospital Contributions (and the related notes), on pages 3 through 3d and on pages 31 through 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the Board of Trustees
Cass County Memorial Hospital

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Cass County Memorial Hospital's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the three years ended June 30, 2013 (which are not presented herein) and expressed qualified opinions on those financial statements. The supplementary information on pages 1 and 36 through 52 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 9, 2015 on our consideration of Cass County Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

Gunnwald, Ben, Lyhman & Co. P.C.

Atlantic, Iowa
December 9, 2015



CASS COUNTY MEMORIAL HOSPITAL
Atlantic, Iowa
Management's Discussion and Analysis

Management's discussion and analysis of the Hospital's financial performance provides an overview of the Hospital's financial activity for the fiscal years ended June 30, 2015, 2014, and 2013. Please read it in conjunction with the Hospital's financial statements, which begin on page 4.

The Hospital is a Critical Access Hospital and the Clinics are Provider Based Rural Health Clinics, thus the Hospital and the Rural Health Clinics receive "cost based" reimbursement from Medicare and Medicaid.

The Hospital issued debt of \$23.5 million for the 2010 addition and remodeling of new inpatient, emergency room, rehab and surgical areas. The addition was completed at the end of June, 2012 and the remodeling was completed in March of 2013. The Hospital decided to add an in-house MRI and the remodeling for this project started in August 2013 and was completed in December 2013 for 1.97 million.

USING THIS ANNUAL REPORT

The Hospital's financial statements consist of three statements – Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

Statistical Analysis gives us an indication of Hospital utilization in certain areas. As with most rural hospitals, Cass County Memorial Hospital has seen a continued shift of services being performed on an outpatient basis, in part due to improvements in technology. In addition, the Hospital experienced increases in its inpatient services during FY2015. Outpatient occasions of service increased approximately 11% and inpatient services increased approximately 12% compared to the prior year.

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position help us understand if the Hospital as a whole is better or worse off as a result of this year's activities. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Both statements report the Hospital's net position and changes in them. The change in net position is a measure of the Hospital's "financial health," but you will need to consider other "nonfinancial" factors such as changes in the Hospital's patient base, measures in the quality of service, and local economic factors to assess the overall health of the Hospital.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities.

STATISTICAL ANALYSIS

The Hospital experienced increased utilization in Acute Care (5.4%), Skilled Care (23.1%), Nursery (4.9%), Outpatient Occasions of Service (11.3%), and Rural Health Clinics (9.6%) compared to FY 2014. Utilization decreased for the Behavior Health Unit (3.6%). This is summarized in Table 1.

Table 1: Statistics

| | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|---------------------------------|-------------|-------------|-------------|
| Acute Care: | | | |
| Discharges | 616 | 539 | 587 |
| Patient Days | 1,889 | 1,792 | 2,058 |
| Skilled Care: | | | |
| Discharges | 207 | 162 | 190 |
| Patient Days | 1,467 | 1,192 | 1,451 |
| Behavior Health Unit: | | | |
| Discharges | 187 | 168 | 214 |
| Patient Days | 986 | 1,023 | 1,021 |
| Nursery: | | | |
| Patient Days | 301 | 287 | 333 |
| Outpatient Occasions of Service | 55,725 | 50,065 | 52,664 |
| Rural Health Clinic Visits | 46,137 | 42,092 | 42,225 |

STATEMENT OF NET POSITION

Net position decreased from \$31,694,832 to \$24,736,551 due to the required change in pension accounting in FY2015. During FY2015, GASB Statement No. 68 was implemented, which reduced the Hospital's beginning of year net position by \$11,731,587. Without this required change, the Hospital's net position would have increased by \$4,773,306. Total Current Assets increased 28%. Cash increased 41%. Net patient receivables increased 14% (50 Net Accounts Receivable Days). Current liabilities increased 30%. Bonds payable decreased 3%.

Table 2: Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, Net Position

| | 2015 | Not Restated | |
|------------------------------------|----------------------|----------------------|----------------------|
| | | 2014 | 2013 |
| Assets: | | | |
| Current assets | \$ 31,263,496 | \$ 24,472,701 | \$ 23,138,230 |
| Capital assets, net | 30,294,953 | 32,402,574 | 32,374,635 |
| Other noncurrent assets | <u>3,444,951</u> | <u>3,436,747</u> | <u>4,536,003</u> |
| Total assets | <u>\$ 65,003,400</u> | <u>\$ 60,312,022</u> | <u>\$ 60,048,868</u> |
| Deferred Outflows of Resources | <u>\$ 1,084,716</u> | <u>\$ --</u> | <u>\$ --</u> |
| Liabilities: | | | |
| Long-term debt outstanding | \$ 29,356,571 | \$ 21,455,000 | \$ 22,150,000 |
| Other current and noncurrent | | | |
| Liabilities | <u>6,538,789</u> | <u>5,019,190</u> | <u>5,626,548</u> |
| Total liabilities | <u>\$ 35,895,360</u> | <u>\$ 26,474,190</u> | <u>\$ 27,776,548</u> |
| Deferred Inflows of Resources | <u>\$ 5,456,205</u> | <u>\$ 2,143,000</u> | <u>\$ 3,235,268</u> |
| Net Position: | | | |
| Invested in capital assets, net of | | | |
| Related debt | \$ 8,691,327 | \$ 10,211,836 | \$ 9,364,653 |
| Restricted | 2,017,010 | 2,017,388 | 2,521,516 |
| Unrestricted | <u>14,028,214</u> | <u>19,465,608</u> | <u>17,150,883</u> |
| Total net position | <u>\$ 24,736,551</u> | <u>\$ 31,694,832</u> | <u>\$ 29,037,052</u> |

STATEMENT OF REVENUES, EXPENSES, & CHANGES IN NET POSITION

Patient Service Revenue increased 8% from last fiscal year. Inpatient revenue increased 10%, Swing Bed increased 52%, Behavioral Health increased 1%, Outpatient increased 17% and the Rural Health Clinic increased 11%.

Contractual adjustments to Patient Service Revenue increased 41%. Adjustments for bad debt decreased 39%, uncompensated care decreased 87% and Rural Health Clinic adjustments increased 33%.

Expenses increased 3%. Salary expense increased 8%, employee benefits decreased 15%, professional fees increased 1%, supplies and other expense increased 4%, depreciation increased 1%.

The Hospital had a net operating income of \$3,209,317 compared to net operating income of \$1,145,008 in FY 2014. Nonoperating revenue (which includes County tax support) increased by 6%. The excess of revenue over expense increased from \$2,657,780 to \$4,773,306 (11% total margin).

Table 3: Revenues, Expenses & Changes in Net Position

| | 2015 | Not Restated | |
|---------------------------------------------|---------------|---------------|---------------|
| | | 2014 | 2013 |
| Operating Revenues: | | | |
| Patient service revenue | \$ 61,876,404 | \$ 53,423,323 | \$ 50,421,417 |
| Adjustments to patient service revenue | (25,303,991) | (19,996,742) | (17,750,261) |
| Net patient service revenue | 36,572,413 | 33,426,581 | 32,671,156 |
| Other operating revenue | 5,884,493 | 5,959,966 | 5,415,611 |
| Total operating revenues | 42,456,906 | 39,386,547 | 38,086,767 |
| Operating Expenses: | | | |
| Salaries | 14,393,721 | 13,289,537 | 14,091,919 |
| Employee benefits | 3,727,953 | 4,377,523 | 4,759,748 |
| Professional fees | 5,400,999 | 5,359,484 | 4,438,482 |
| Supplies and other expense | 12,480,284 | 12,000,687 | 11,039,036 |
| Depreciation | 3,244,632 | 3,214,308 | 2,887,135 |
| Total operating expenses | 39,247,589 | 38,241,539 | 37,216,320 |
| Operating income | 3,209,317 | 1,145,008 | 870,447 |
| Nonoperating Revenue and Expense: | | | |
| Property taxes | 2,183,490 | 2,161,848 | 2,121,802 |
| Interest expense | (1,668,121) | (1,620,312) | (1,523,930) |
| Other Nonoperating revenue and Expense | 1,048,620 | 971,236 | 1,186,683 |
| Total Nonoperating revenue And expense | 1,563,989 | 1,512,772 | 1,784,555 |
| Excess of Revenues Over Expenses | 4,773,306 | 2,657,780 | 2,655,002 |
| Net Position Beginning of Year, as Restated | 19,963,245 | 29,037,052 | 26,382,050 |
| Net Position End of Year | \$ 24,736,551 | \$ 31,694,832 | \$ 29,037,052 |

STATEMENT OF CASH FLOWS

Changes in the Hospital's cash flows are consistent with changes in operating income and nonoperating revenues and expenses, discussed earlier. The Hospital received cash from patient and third party payors of \$36,402,881 along with other revenue of \$5,860,748. Cash paid out to suppliers was \$21,870,533 and employees was \$14,175,696. Net cash provided by operating activities was a positive \$6,217,400 compared to \$4,188,657 in FY 2014.

The net increase in cash and cash equivalents was \$5,756,771 which included a use of cash for capital expenditures, and principal and interest paid on the long-term debt.

BUDGETARY HIGHLIGHTS

The official county budget of the Hospital for the year ended June 30, 2015 was prepared on a modified accrual basis. Revenue was 13% above budget and expenses were 8% over budget. There was no amendment made to the county budget for the fiscal year.

CAPITAL ASSETS

At the end of FY 2015, the Hospital had \$30,294,935 invested in capital assets, net of accumulation depreciation. In FY 2015 the Hospital had capital additions costing \$1,190,696. The Hospital construction in progress and computer system projects at June 30, 2015 was \$287,183.

DEBT

The Hospital issued \$6,780,000 of Hospital Revenue Bonds (Series 2010A) in December, 2010 to pay the cost of expansion and renovation of the Hospital. These bonds are payable from revenues of the Hospital and final payment is due June, 2035. Interest at a rate of 7.25% is due semi- annually.

The Hospital issued \$16,720,000 of Hospital Revenue Bonds (Series 2010B) in December, 2010 to pay the cost of expansion and renovation of the Hospital. These bonds are payable from revenues of the Hospital. The bonds mature in annual installments beginning in June, 2013 through June, 2026 and installments due June, 2028 and June, 2033, with an interest rate of 2.6% - 10.0%. The Hospital is eligible to receive a 45% subsidy of interest paid from the Federal Government each year for these bonds. This subsidy was reduced approximately 8% this year due to the government sequester.

Under the terms of the Series 2010 bonds the Hospital is required to maintain certain deposits with a bank. The terms of the bonds also places limits on the incurrence of additional debt and requires the Hospital to satisfy certain measures of financial performance, Debt Service Ratio of 1.25 or greater and maintain greater than 60 days cash on hand as long as the bonds are outstanding starting in 2013. In FY 2015 the Debt Service Ratio was 3.96 and Days Cash on Hand were 209.

Total Long Term Debt outstanding at the end of FY 2015 totaled \$21,455,000.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact administration at Cass County Memorial Hospital, Atlantic, Iowa 50022.

CASS COUNTY MEMORIAL HOSPITAL
Statements of Net Position
June 30,

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

| | <u>2015</u> | <u>Not Restated 2014</u> |
|--------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------------------|
| Current Assets: | | |
| Cash | \$ 19,809,427 | \$ 14,062,341 |
| Patient receivables, less allowances for doubtful accounts and contractual adjustments (\$2,512,000 in 2015, \$1,802,000 in 2014) | 5,040,828 | 4,409,363 |
| Other receivables | 1,970,041 | 1,737,974 |
| Inventory | 659,477 | 613,453 |
| Prepaid expense | 616,229 | 631,629 |
| Succeeding year property tax receivable | 2,172,000 | 2,143,000 |
| Internally designated assets | 995,494 | 874,941 |
| Total current assets | <u>31,263,496</u> | <u>24,472,701</u> |
| Designated and Restricted Assets: | | |
| Internally designated assets | 1,445,702 | 1,426,421 |
| Restricted assets | <u>2,017,010</u> | <u>2,017,388</u> |
| | 3,462,712 | 3,443,809 |
| Less amounts required to meet current liabilities | <u>995,494</u> | <u>874,941</u> |
| | 2,467,218 | 2,568,868 |
| Capital Assets: | | |
| Depreciable capital assets, net | 29,572,189 | 31,779,753 |
| Non-depreciable capital assets | <u>722,746</u> | <u>622,821</u> |
| | 30,294,935 | 32,402,574 |
| Investment in Cass County Medical Clinics, Inc. | 172,356 | 92,192 |
| Other Noncurrent Assets | <u>805,395</u> | <u>775,687</u> |
| Total assets | 65,003,400 | 60,312,022 |
| Deferred Outflows of Resources - Pension | <u>1,084,716</u> | <u>--</u> |
| Total assets and deferred outflows of resources | <u>\$ 66,088,116</u> | <u>\$ 60,312,022</u> |

The accompanying notes are an integral part of these statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

| | <u>2015</u> | <u>Not Restated 2014</u> |
|---------------------------------------------------------------------------|--------------------------|----------------------------------|
| Current Liabilities: | | |
| Current maturities of long-term debt | \$ 710,000 | \$ 695,000 |
| Accounts payable | 1,041,929 | 710,516 |
| Accrued employee compensation | 1,940,689 | 1,722,664 |
| Payroll taxes withheld and accrued | 523,385 | 469,807 |
| Accrued interest payable | 136,886 | 139,203 |
| Other current liabilities | 200,000 | 200,000 |
| Advance rent received | 209,900 | -- |
| Estimated third-party payor settlements | <u>1,776,000</u> | <u>1,082,000</u> |
| Total current liabilities | 6,538,789 | 5,019,190 |
| Long-Term Liabilities: | | |
| Bonds payable, less current maturities | 20,745,000 | 21,455,000 |
| Net pension liability | <u>8,611,571</u> | <u>--</u> |
| Total long-term liabilities | 29,356,571 | 21,455,000 |
| Total liabilities | 35,895,360 | 26,474,190 |
| Deferred Inflows of Resources: | | |
| Succeeding year property tax revenue | 2,172,000 | 2,143,000 |
| Pension | <u>3,284,205</u> | <u>--</u> |
| Total deferred inflows of resources | 5,456,205 | 2,143,000 |
| Net Position: | | |
| Invested in capital assets, net of related debt | 8,691,327 | 10,211,836 |
| Restricted - expendable | 2,017,010 | 2,017,388 |
| Unrestricted | <u>14,028,214</u> | <u>19,465,608</u> |
| | <u>24,736,551</u> | <u>31,694,832</u> |
| Total liabilities, deferred inflows of resources, and net position | <u>\$ 66,088,116</u> | <u>\$ 60,312,022</u> |

CASS COUNTY MEMORIAL HOSPITAL
Statements of Revenues, Expenses and Changes in Net Position
Year ended June 30,

| | <u>2015</u> | <u>Not Restated 2014</u> |
|-----------------------------------------------------------------------------|----------------------|----------------------------------|
| Revenues: | | |
| Net patient service revenue | \$ 36,572,413 | \$ 33,426,581 |
| Other revenue | <u>5,884,493</u> | <u>5,959,966</u> |
| Total revenue | 42,456,906 | 39,386,547 |
| Expenses: | | |
| Salaries and wages | 14,393,721 | 13,289,537 |
| Employee benefits | 3,727,953 | 4,377,523 |
| Professional fees | 5,400,999 | 5,359,484 |
| Supplies and other expense | 12,480,284 | 12,000,687 |
| Provision for depreciation | <u>3,244,632</u> | <u>3,214,308</u> |
| Total expenses | <u>39,247,589</u> | <u>38,241,539</u> |
| Operating Income | 3,209,317 | 1,145,008 |
| Non-Operating Income (Losses): | | |
| County taxes | 2,183,490 | 2,161,848 |
| Investment income | 160,282 | 132,220 |
| Federal interest subsidy | 491,993 | 500,448 |
| Medical office building rent, net | 47,385 | 59,498 |
| Southwest Iowa Mental Health Center services, net | 260,319 | 139,777 |
| Retail pharmacy loss, net | (16,143) | (100,983) |
| Other rental income, net | 51,995 | 30,523 |
| Interest expense | (1,668,121) | (1,620,312) |
| Gain on construction settlement | -- | 124,971 |
| Gain on disposal of assets | <u>3,481</u> | <u>810</u> |
| Non-operating revenue, net | <u>1,514,681</u> | <u>1,428,800</u> |
| Excess of Revenues Over Expenses Before Capital Grants and Contributions | 4,723,998 | 2,573,808 |
| Capital Grants and Contributions | <u>49,308</u> | <u>83,972</u> |
| Excess of Revenues Over Expenses and Increase in Net Position | 4,773,306 | 2,657,780 |
| Net Position Beginning of Year, as Restated (Note P) | <u>19,963,245</u> | <u>29,037,052</u> |
| Net Position End of Year | <u>\$ 24,736,551</u> | <u>\$ 31,694,832</u> |

The accompanying notes are an integral part of these statements.

CASS COUNTY MEMORIAL HOSPITAL
Statements of Cash Flows
Year ended June 30,

| | <u>2015</u> | <u>Not Restated 2014</u> |
|-----------------------------------------------------------|----------------------|----------------------------------|
| Cash flows from operating activities: | | |
| Cash received from patients and third-party payors | \$ 36,402,881 | \$ 33,229,845 |
| Cash paid to suppliers | (21,870,533) | (21,656,807) |
| Cash paid to employees | (14,175,696) | (13,326,766) |
| Other revenue | <u>5,860,748</u> | <u>5,942,385</u> |
| Net cash provided by operating activities | 6,217,400 | 4,188,657 |
| Cash flows from noncapital financing activities: | | |
| County tax revenue | 2,183,490 | 2,161,848 |
| Cash flows from capital and related financing activities: | | |
| Capital expenditures | (1,082,826) | (4,497,709) |
| Capital grants and contributions | 49,308 | 83,972 |
| Proceeds from disposal of assets | 3,481 | 810 |
| Principal paid on long-term debt | (695,000) | (865,799) |
| Interest paid | (1,670,438) | (1,696,311) |
| Federal interest subsidy received | <u>491,993</u> | <u>500,448</u> |
| Net cash used in capital and related financing activities | (2,903,482) | (6,474,589) |
| Cash flows from investing activities: | | |
| Investment income | 181,736 | 143,014 |
| Investment in Cass County Medical Clinics, Inc. | (260,164) | (147,801) |
| Increase (decrease) in designated and restricted assets | (6,927) | 680,074 |
| Rental income, received | 144,275 | 136,362 |
| Southwest Iowa Mental Health Center services, net | 260,319 | 26,513 |
| Retail pharmacy loss, net | (16,143) | (100,983) |
| Change in other noncurrent assets | <u>(43,733)</u> | <u>(33,164)</u> |
| Net cash provided by investing activities | 259,363 | 704,015 |
| Net increase in cash and cash equivalents | 5,756,771 | 579,931 |
| Cash and cash equivalents at beginning of year | <u>16,092,393</u> | <u>15,512,462</u> |
| Cash and cash equivalents at end of year | <u>\$ 21,849,164</u> | <u>\$ 16,092,393</u> |

(continued next page)

CASS COUNTY MEMORIAL HOSPITAL
Statements of Cash Flows - Continued
Year ended June 30,

| | <u>2015</u> | <u>Not Restated 2014</u> |
|-----------------------------------------------------------------------------------------|----------------------|----------------------------------|
| Reconciliation of cash and cash equivalents to the statements of net position: | | |
| Cash in current assets | \$ 19,809,427 | \$ 14,062,341 |
| Cash and cash equivalents in designated and restricted assets | <u>2,039,737</u> | <u>2,030,052</u> |
| | <u>\$ 21,849,164</u> | <u>\$ 16,092,393</u> |
| Reconciliation of operating loss to net cash provided by operating activities: | | |
| Operating income | \$ 3,209,317 | \$ 1,145,008 |
| Adjustments to reconcile operating loss to net cash provided by operating activities | | |
| Provision for depreciation | 3,244,632 | 3,214,308 |
| Amortization | 14,025 | 52,024 |
| Write-off CCMC investment | 180,000 | 180,000 |
| Component of operating revenue reclassified for purposes of reporting cash flows | | |
| Interest income on operating funds | (23,745) | (17,581) |
| Change in assets and liabilities | | |
| Accounts receivable | (863,532) | (75,736) |
| Inventory | (46,024) | (24,537) |
| Prepaid expense | 15,400 | (130,093) |
| Deferred outflows of resources | 184,122 | -- |
| Accounts payable, trade | 232,351 | 11,844 |
| Accrued employee compensation | 218,025 | (37,229) |
| Payroll taxes withheld and accrued | 53,578 | 16,649 |
| Estimated third-party payor settlements | 694,000 | (121,000) |
| Other current liabilities | -- | (25,000) |
| Advance rent received | 209,900 | -- |
| Net pension liability | (4,388,854) | -- |
| Deferred inflows of resources | <u>3,284,205</u> | <u>--</u> |
| Total adjustments | <u>3,008,083</u> | <u>3,043,649</u> |
| Net cash provided by operating activities | <u>\$ 6,217,400</u> | <u>\$ 4,188,657</u> |

The accompanying notes are an integral part of these statements.

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting Entity

The organization is a county hospital with related healthcare ancillary and outpatient services. The Hospital is organized under Chapter 347 of the Code of Iowa, accordingly is a political subdivision of the State of Iowa, and is therefore exempt from federal and state income taxes. It is governed by a seven member board of trustees elected for six year terms. The Hospital has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The criteria for determining financial accountability include: appointing a majority of an organization's governing body, and (a) the Hospital's ability to impose its will on that organization, or (b) the potential for the organization to provide benefits to or impose financial burdens on the Hospital. The Hospital has two component units. Cass County Medical Clinics, Inc. (CCMC) is a component unit because three out of five board members are also board members of the Hospital and should be blended with the Hospital's financial statements. The Cass County Health System Foundation is a component unit because the Hospital is the sole beneficiary of the Foundation and should be discretely presented. The Hospital has elected to exclude the financial information of its component units from these financial statements.

Following is a summary of the approximate assets, liabilities, net assets, revenues, and expenses of the component units as of and for the years ended June 30, 2015 and 2014:

| | CCMC | | Foundation | |
|-------------|--------------|--------------|------------|------------|
| | 2015 | 2014 | 2015 | 2014 |
| Assets | \$ 811,000 | \$ 649,000 | \$ 963,000 | \$ 952,000 |
| Liabilities | \$ 813,000 | \$ 705,000 | \$ -- | \$ -- |
| Net Assets | \$ (2,000) | \$ (56,000) | \$ 963,000 | \$ 952,000 |
| Revenues | \$ 4,683,000 | \$ 4,430,000 | \$ 238,000 | \$ 333,000 |
| Expenses | \$ 4,629,000 | \$ 4,348,000 | \$ 277,000 | \$ 173,000 |

2. Basis of Presentation

The Statement of Net Position displays the Hospital's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position in a balance sheet format. Net position is reported in three categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

Restricted net position:

- a. *Nonexpendable* - Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Hospital.
- b. *Expendable* - Expendable net position results when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

When both restricted and unrestricted net position is available for use, generally it is the Hospital's policy to use restricted net position first.

3. Measurement Focus and Basis of Accounting

Measurement focus refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying basic financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

4. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

5. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less, including designated and restricted assets.

6. Accounts Receivable

Accounts receivable are shown at the amount expected to be collected after determining the allowance for doubtful accounts based on an aging of all the individual patient balances.

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

7. Inventory Valuation

Inventory is valued at the lower of cost (first-in, first-out method) or market, except for general stores inventory which is valued at average cost.

8. Investments

Investments are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in non-operating revenue when earned, unless restricted by donor or law.

9. Designated and Restricted Assets

Internally designated assets consist primarily of funds designated by the Board of Trustees for capital acquisitions. The Board retains control over these funds, and may, at its discretion, subsequently use them for other purposes. Restricted assets include donor restricted gifts, and funds whose use is limited by law or contractual agreements.

10. Capital Assets

The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets with lives in excess of three years and cost in excess of \$5,000 are capitalized. These capital assets, other than land, are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using their estimated useful lives (fifteen to fifty years for buildings and land improvements and five to twenty years for equipment).

11. Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Interest cost of \$ - 0 - was capitalized in 2015 (\$73,926 in 2014).

12. Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

13. Property Tax Levy

Property tax receivable is recognized on the levy or lien date, which is the date the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Trustees to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Trustees is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

14. Compensated Absences

Hospital employees earn paid time off hours at varying rates depending on years of service. Paid time off consists of holiday, vacation and sick time and accumulates to a maximum of 552 hours for full-time employees and 276 for part-time employees. Any excess over the maximum hours accumulated by the employee's anniversary date is lost. The computed amount of paid time off benefits earned by year end is recorded as part of accrued employee compensation.

15. Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources in the Statement of Net Position consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

16. Statement of Revenues, Expenses and Changes in Net Position

For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenues and expenses. Property tax levied to finance the current year is included as non-operating revenues and peripheral or incidental transactions are reported as non-operating revenues and expenses.

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

17. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

18. Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

19. Endowments

Endowments are provided to the Hospital on a voluntary basis by individuals and private organizations. *Permanent* endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, law permits the Board of Trustees to authorize for expenditure the net appreciation of the investments of endowment funds, as discussed in Note C.

20. Restricted Resources

Use of restricted or unrestricted resources for individual projects is determined by the Hospital Board of Trustees based on the facts regarding each specific situation.

21. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as bad debts or charity service depending on the timing of the charity determination.

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

A summary of the payment arrangements with major third-party payors follows:

Medicare and Medicaid - Inpatient services and most outpatient services related to program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediaries. The Hospital's Medicare cost reports have been audited and finalized by the fiscal intermediaries through June 30, 2013. The Medicaid cost reports have been audited through June 30, 2013. However, finalized cost reports are subject to re-opening by the intermediaries within three years of the date of finalization. Outpatient services not paid based on a cost reimbursement methodology are paid based on a prospectively determined fee schedule.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

NOTE C - ENDOWMENTS AND RESTRICTED ASSETS

Restricted expendable assets are available for the following purposes:

| | <u>2015</u> | <u>2014</u> |
|--------------------------------|---------------------|---------------------|
| Principal on Series 2010 Bonds | \$ 170,405 | \$ 170,968 |
| Interest on Series 2010 Bonds | <u>1,846,605</u> | <u>1,846,420</u> |
| | <u>\$ 2,017,010</u> | <u>\$ 2,017,388</u> |

The Hospital has no restricted nonexpendable assets or endowments at June 30, 2015 or 2014.

Following is a summary of the use of temporarily restricted assets during the year ended June 30:

| | <u>2015</u> | <u>2014</u> |
|----------------------|---------------------|---------------------|
| Construction project | \$ -- | \$ 1,092,157 |
| Interest on bonds | 1,670,438 | 1,692,198 |
| Principal on bonds | <u>695,000</u> | <u>680,000</u> |
| | <u>\$ 2,365,438</u> | <u>\$ 3,464,355</u> |

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE D - DESIGNATED ASSETS

Designated assets remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes. The designated purposes are identified in the following schedule.

| | <u>2015</u> | <u>2014</u> |
|----------------------------------------------------|---------------------|---------------------|
| Capital acquisitions and payment of long-term debt | \$ 211,113 | \$ 198,758 |
| Operations | <u>1,234,589</u> | <u>1,227,663</u> |
| | <u>\$ 1,445,702</u> | <u>\$ 1,426,421</u> |

NOTE E - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2015 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. Investments are stated as indicated in Note A.

The Hospital is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; common stocks; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The composition of designated and restricted assets is as follows:

| | <u>2015</u> | <u>2014</u> |
|-------------------------------|---------------------|---------------------|
| Internally Designated Assets: | | |
| Cash and cash equivalents | \$ 22,727 | \$ 12,664 |
| Certificates of deposit | 1,233,750 | 1,226,812 |
| Equity securities | 188,386 | 186,095 |
| Interest receivable | <u>839</u> | <u>850</u> |
| | <u>\$ 1,445,702</u> | <u>\$ 1,426,421</u> |
| Restricted Assets: | | |
| Cash and cash equivalents | <u>\$ 2,017,010</u> | <u>\$ 2,017,388</u> |

Interest Rate Risk - The Hospital's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Hospital.

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE F - FAIR VALUE MEASUREMENTS

The Hospital's investments are reported at fair value in the accompanying statements of financial position. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs are unobservable and have the lowest priority. The Hospital uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. Level 1 inputs were available for all investments at June 30, 2015 and 2014.

Level 1 Fair Value Measurements

The fair value of the securities is based on quoted values of the shares held by the Hospital at year-end.

The following tables set forth, by level within the fair value hierarchy, the Hospital's investments at fair value as of June 30, 2015 and 2014:

| | | Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1) |
|----------------------|-------------------|--------------------------------------------------------------------------------------------------------------------------------------------|
| <u>June 30, 2015</u> | <u>Fair Value</u> | |
| Equity securities | \$ 188,386 | \$ 188,386 |
| <u>June 30, 2014</u> | | |
| Equity securities | \$ 186,094 | \$ 186,094 |

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE G - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2015 and 2014, was as follows:

| | <u>2015</u> | <u>2014</u> |
|-------------------------------------------------------------------|---------------------|---------------------|
| Receivable from: | | |
| Patients | \$ 1,646,522 | \$ 2,679,528 |
| Medicare | 2,725,499 | 1,659,760 |
| Medicaid | 812,502 | 564,123 |
| Blue Cross | 1,167,172 | 777,532 |
| Other commercial insurance carriers | 676,699 | 224,886 |
| Others | <u>524,434</u> | <u>305,534</u> |
| | 7,552,828 | 6,211,363 |
| Less allowances for doubtful accounts and contractual adjustments | <u>2,512,000</u> | <u>1,802,000</u> |
| | <u>\$ 5,040,828</u> | <u>\$ 4,409,363</u> |

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE H - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2015 and 2014 were as follows:

| <u>Cost</u> | <u>Balance 2014</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance 2015</u> |
|------------------------------------|-------------------------|-----------------------|-------------------|-------------------------|
| Land Improvements | \$ 2,811,673 | \$ 27,730 | \$ -- | \$ 2,839,403 |
| Buildings | 30,773,165 | 18,332 | -- | 30,791,497 |
| Building Services Equipment | 7,276,278 | 214,925 | -- | 7,491,203 |
| Medical Office Building | 4,890,191 | 336,778 | -- | 5,226,969 |
| Fixed Equipment | 2,595,264 | -- | -- | 2,595,264 |
| Major Movable Equipment | 15,287,963 | 493,006 | 23,500 | 15,757,469 |
| Rural Health Clinic Equipment | <u>438,506</u> | <u>--</u> | <u>--</u> | <u>438,506</u> |
| | 64,073,040 | 1,090,771 | 23,500 | 65,140,311 |
| <u>Depreciation</u> | | | | |
| Land Improvements | 1,986,906 | 88,655 | -- | 2,075,561 |
| Buildings | 8,282,077 | 1,570,705 | -- | 9,852,782 |
| Building Services Equipment | 4,001,150 | 387,947 | -- | 4,389,097 |
| Medical Office Building | 2,992,153 | 153,307 | -- | 3,145,460 |
| Fixed Equipment | 2,485,779 | 21,142 | -- | 2,506,921 |
| Major Movable Equipment | 12,124,887 | 1,074,210 | 23,500 | 13,175,597 |
| Rural Health Clinic Equipment | <u>420,335</u> | <u>2,369</u> | <u>--</u> | <u>422,704</u> |
| Total Depreciation | <u>32,293,287</u> | <u>3,298,335</u> | <u>23,500</u> | <u>35,568,122</u> |
| Depreciable Capital Assets, Net | <u>\$ 31,779,753</u> | <u>\$(2,207,564)</u> | <u>\$ --</u> | <u>\$ 29,572,189</u> |
| Construction in Progress | \$ 89,666 | \$ 199,010 | \$ 91,567 | \$ 197,109 |
| Computer System Projects | 97,592 | 139,099 | 146,617 | 90,074 |
| Land | <u>435,563</u> | <u>--</u> | <u>--</u> | <u>435,563</u> |
| Non-Depreciable Capital Assets | <u>\$ 622,821</u> | <u>\$ 338,109</u> | <u>\$ 238,184</u> | <u>\$ 722,746</u> |

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE H - CAPITAL ASSETS - Continued

| <u>Cost</u> | <u>Balance 2013</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance 2014</u> |
|------------------------------------|-------------------------|---------------------|---------------------|-------------------------|
| Land Improvements | \$ 2,731,063 | \$ 80,610 | \$ -- | \$ 2,811,673 |
| Buildings | 30,869,382 | -- | 96,217 | 30,773,165 |
| Building Services Equipment | 4,478,412 | 2,797,866 | -- | 7,276,278 |
| Medical Office Building | 4,890,191 | -- | -- | 4,890,191 |
| Fixed Equipment | 2,595,264 | -- | -- | 2,595,264 |
| Major Movable Equipment | 14,934,860 | 417,731 | 64,628 | 15,287,963 |
| Rural Health Clinic Equipment | <u>438,506</u> | <u>--</u> | <u>--</u> | <u>438,506</u> |
| | 60,937,678 | 3,296,207 | 160,845 | 64,073,040 |
| <u>Depreciation</u> | | | | |
| Land Improvements | 1,899,796 | 87,110 | -- | 1,986,906 |
| Buildings | 6,707,998 | 1,574,079 | -- | 8,282,077 |
| Building Services Equipment | 3,797,625 | 203,525 | -- | 4,001,150 |
| Medical Office Building | 2,841,934 | 150,219 | -- | 2,992,153 |
| Fixed Equipment | 2,450,852 | 34,927 | -- | 2,485,779 |
| Major Movable Equipment | 10,980,471 | 1,209,044 | 64,628 | 12,124,887 |
| Rural Health Clinic Equipment | <u>417,442</u> | <u>2,893</u> | <u>--</u> | <u>420,335</u> |
| Total Depreciation | <u>29,096,118</u> | <u>3,261,797</u> | <u>64,628</u> | <u>32,293,287</u> |
| Depreciable Capital Assets, Net | <u>\$ 31,841,560</u> | <u>\$ 34,410</u> | <u>\$ 96,217</u> | <u>\$ 31,779,753</u> |
| Construction in Progress | \$ 295 | \$ 2,673,806 | \$ 2,584,435 | \$ 89,666 |
| Computer System Projects | 97,217 | 396,712 | 396,337 | 97,592 |
| Land | <u>435,563</u> | <u>--</u> | <u>--</u> | <u>435,563</u> |
| Non-Depreciable Capital Assets | <u>\$ 533,075</u> | <u>\$ 3,070,518</u> | <u>\$ 2,980,772</u> | <u>\$ 622,821</u> |

The Hospital rents a portion of the medical office building, and the mental health center and home health care buildings to various providers of health care services. Depreciation expense related to the rented space was \$53,703 for the year ended June 30, 2015 (\$47,489 for 2014).

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE I - NON-CURRENT LIABILITIES

A schedule of changes in the Hospital's non-current liabilities for the years ended June 30, 2015 and 2014 follows:

| | <u>Balance 2014</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance 2015</u> | <u>Current Portion</u> |
|----------------------------------|-------------------------|---------------------|-------------------|-------------------------|----------------------------|
| Long-Term Debt: | | | | | |
| Bonds payable, Series 2010A | \$ 6,780,000 | \$ -- | \$ -- | \$ 6,780,000 | \$ -- |
| Bonds payable, Series 2010B | 15,370,000 | -- | 695,000 | 14,675,000 | 710,000 |
| Net pension liability | <u>--</u> | <u>8,611,571</u> | <u>--</u> | <u>8,611,571</u> | <u>--</u> |
| Total Non-Current Liabilities | <u>\$ 22,150,000</u> | <u>\$ 8,611,571</u> | <u>\$ 695,000</u> | <u>\$ 30,066,571</u> | <u>\$ 710,000</u> |
| | <u>Balance 2013</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance 2014</u> | <u>Current Portion</u> |
| Long-Term Debt: | | | | | |
| Bonds payable, Series 2010A | \$ 6,780,000 | \$ -- | \$ -- | \$ 6,780,000 | \$ -- |
| Bonds payable, Series 2010B | <u>16,050,000</u> | <u>--</u> | <u>680,000</u> | <u>15,370,000</u> | <u>695,000</u> |
| Total Long-Term Debt | <u>22,830,000</u> | <u>--</u> | <u>680,000</u> | <u>22,150,000</u> | <u>695,000</u> |
| Capital Lease Obligations | <u>185,799</u> | <u>--</u> | <u>185,799</u> | <u>--</u> | <u>--</u> |
| Total Non-Current Liabilities | <u>\$ 23,015,799</u> | <u>\$ --</u> | <u>\$ 865,799</u> | <u>\$ 22,150,000</u> | <u>\$ 695,000</u> |

Bonds Payable

The Hospital issued \$6,780,000 of Hospital Revenue Bonds, Series 2010A in December, 2010, to pay for the costs of expansion and renovation of the Hospital. The bonds are payable from the revenues of the Hospital. A lump sum payment of \$6,780,000 is due June 1, 2035. The interest rate is 7.25% and is due semi-annually.

The Hospital issued \$16,720,000 of Hospital Revenue Bonds, Series 2010B in December, 2010, to pay for the costs of the expansion and renovation of the Hospital. The bonds are payable from the revenues of the Hospital. The bonds mature in annual installments beginning in June, 2013, through June, 2026, and installments due June, 2028 and June, 2033, with an interest rate of 2.6% - 10.0%. The Hospital is eligible to receive a 45% subsidy of interest paid from the Federal Government each year.

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE I - NON-CURRENT LIABILITIES - Continued

The annual debt service on the bonds is expected to require less than 24% of cash flow available for debt service. For the current year, debt service and cash flow available for debt service were approximately \$2,365,000 and \$9,934,000 respectively.

Under the terms of the bonds, the Hospital is required to maintain certain deposits with a bank. Such deposits are included with restricted assets in the financial statements. The bonds also place limits on the incurrence of additional borrowings and require that the Hospital satisfy certain measures of financial performance as long as the bonds are outstanding.

Scheduled principal and interest repayments on the long-term debt are as follows:

| Year ending June 30, | Long-Term Debt | | |
|-------------------------|----------------------|----------------------|----------------------|
| | Principal | Interest | Total |
| 2016 | \$ 710,000 | \$ 1,642,637 | \$ 2,352,637 |
| 2017 | 730,000 | 1,608,913 | 2,338,913 |
| 2018 | 750,000 | 1,569,857 | 2,319,857 |
| 2019 | 775,000 | 1,526,733 | 2,301,733 |
| 2020 | 800,000 | 1,479,070 | 2,279,070 |
| 2021-2025 | 4,485,000 | 6,497,955 | 10,982,955 |
| 2026-2030 | 2,685,000 | 4,832,803 | 7,517,803 |
| 2031-2035 | 10,520,000 | 3,579,750 | 14,099,750 |
| | <u>\$ 21,455,000</u> | <u>\$ 22,737,718</u> | <u>\$ 44,192,718</u> |

NOTE J - PENSION PLAN

Plan Description - IPERS membership is mandatory for employees of the Hospital, except for those covered by another retirement system. Employees of the Hospital are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE J - PENSION PLAN - Continued

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE J - PENSION PLAN - Continued

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95% of pay and the Hospital contributed 8.93% for a total rate of 14.88%.

The Hospital's contributions to IPERS for the year ended June 30, 2015 were \$1,384,399.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the Hospital reported a liability of \$8,611,571 for its proportionate share of the net pension liability. The Hospital net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Hospital's proportion of the net pension liability was based on the Hospital's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the Hospital's proportion was 0.212785%, which was a decrease of 0.016823% from its proportion measured as of June 30, 2013. For the year ended June 30, 2015, the Hospital recognized pension expense of \$400,967. At June 30, 2015, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---------------------------------------------------------------------------------------------------------------|-----------------------------------------------|----------------------------------------------|
| Differences between expected and actual experience | \$ 93,591 | \$ -- |
| Changes of assumptions | 380,048 | -- |
| Net difference between projected and actual earnings on pension plan investments | -- | 3,284,205 |
| Changes in proportion and differences between Hospital contributions and proportionate share of contributions | (773,322) | -- |
| Hospital contributions subsequent to the measurement date | <u>1,384,399</u> | <u>--</u> |
| | <u>\$ 1,084,716</u> | <u>\$ 3,284,205</u> |

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE J - PENSION PLAN - Continued

The \$1,384,399, reported as deferred outflows of resources related to pensions resulting from the Hospital contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ended June 30,</u> | |
|--------------------------------|------------------------------|
| 2016 | \$(891,070) |
| 2017 | (891,070) |
| 2018 | (891,070) |
| 2019 | (891,070) |
| 2020 | <u>(19,608)</u> |
| | <u><u>\$(3,583,888)</u></u> |

There were no non-employer contribution entities at IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|--------------------------------------------------------|---------------------------------------------------------------------------------------------------------|
| Rate of Inflation (effective June 30, 2014) | 3.00% |
| Salary increases (effective June 30, 2014) | 4.00%, average, including inflation |
| Investment rate of return (effective June 30, 1996) | 7.50% per annum, compounded annually, net of pension plan investment expense, including inflation |

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE J - PENSION PLAN - Continued

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| <u>Asset Class</u> | <u>Asset Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|------------------------|-------------------------|-------------------------------------------------------|
| US Equity | 23% | 6.31 |
| Non US Equity | 15 | 6.76 |
| Private Equity | 13 | 11.34 |
| Real Estate | 8 | 3.52 |
| Core Plus Fixed Income | 28 | 2.06 |
| Credit Opportunities | 5 | 3.67 |
| TIPS | 5 | 1.92 |
| Other Real Assets | 2 | 6.27 |
| Cash | 1 | (0.69) |
| Total | <u>100%</u> | |

Discount Rate - The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Hospital will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Hospital's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Hospital's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the Hospital's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate.

| | <u>1% Decrease (6.5%)</u> | <u>Discount Rate (7.5%)</u> | <u>1% Increase (8.5%)</u> |
|-------------------------------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|
| Hospital's proportionate share of the net pension liability | <u>\$ 16,271,321</u> | <u>\$ 8,611,571</u> | <u>\$ 2,145,948</u> |

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE J - PENSION PLAN - Continued

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to the Pension Plan - At June 30, 2015, the Hospital reported payables to the defined benefit pension plan of \$285,201 for legally required employer contributions and \$73,374 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

NOTE K - DEFERRED COMPENSATION PLAN

The Hospital offers its employees a deferred compensation plan as allowed by Internal Revenue Code Section 457. The plan allows Hospital employees to defer a portion of their current salary until future years. The Hospital matches a portion of employee contributions to the employees' accounts. The Hospital's contribution expense totaled approximately \$238,600 and \$220,300 for the years ended June 30, 2015 and 2014, respectively. The Hospital's accounting and personnel departments are responsible for the accounting, reconciliations and record keeping associated with employees' enrollment, payments to the plan through payroll deductions, and timely transfer of withheld funds to the independent contractor for investment. The plan is designed so that each participant retains investment control of his/her individual account. The employees become eligible to withdraw funds upon termination, retirement, death or unforeseeable emergency.

The Hospital's fiduciary responsibility is limited to due care in selecting contractors to administer the Plan. These contractors are responsible for withholdings and W-2s when the participants receive payments. The contractors are also required to submit an annual report to the Hospital. The Hospital is liable to a participant only for income lost because of its failure to send payment of a deferred amount as directed by the participant.

The market value of the exclusive benefit plan assets at June 30, 2015 was approximately \$11,710,000 (\$12,172,000 at June 30, 2014). This amount is not included in the financial statements since the Hospital does not own or hold in a trustee capacity the amounts deferred by employees and related income on those amounts.

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE L - RELATED PARTIES

Southwest Iowa Mental Health Center

The Hospital has entered into a sharing agreement with Southwest Iowa Mental Health Center, pursuant to Chapter 28E of the Iowa Code, to deliver mental health services in the area. Under the agreement, all non-physician personnel became employees of the Hospital. The Mental Health Center agreed to purchase all non-physician services necessary for the Center's operations from the Hospital. Tax funds collected by the Hospital for a portion of the cost of the Center's non-physician personnel result in credits being passed through to the Center. The Hospital agreed to purchase all mental health physician services necessary for its inpatient operation from the Center.

The Hospital has agreed to provide operating capital and fund operating deficits of the Center. During the year ended June 30, 2015, the Hospital provided \$50,000 (\$50,000 in 2014) of operating capital. The Center had net income in 2015 of \$135,826 (income of \$113,264 in 2014) without the Hospital's funding.

Below is a summary of the activity and amounts due under the agreement with the Mental Health Center as of June 30:

| | <u>2015</u> | <u>2014</u> |
|----------------------------------------------------------------------------|---------------------|---------------------|
| Hospital expense to Mental Health Center for physicians | <u>\$ 213,674</u> | <u>\$ 267,174</u> |
| Support and net deficit funding from Hospital to Mental Health Center | <u>\$ 50,616</u> | <u>\$ 95,035</u> |
| Hospital revenue for Mental Health Center personnel costs and insurance | <u>\$ 1,805,620</u> | <u>\$ 1,410,288</u> |
| Owed to Hospital by the Mental Health Center | <u>\$ 1,151,524</u> | <u>\$ 882,327</u> |

The financial arrangements for the 2015-2016 year are based on the budgeted needs of each entity. The Hospital has agreed to pay the Mental Health Center approximately \$270,000, which includes financial support and payment for physician services. The Center agreed to pay the Hospital approximately \$1,836,000 for non-physician services. Future financial arrangements will be determined annually based on a review of actual operations and needs.

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE L - RELATED PARTIES - Continued

Health Partners of Southwest Iowa

The Hospital has joined with two other area hospitals (Myrtue Medical Center of Harlan and Montgomery County Memorial Hospital of Red Oak) to form a 28E organization, Health Partners of Southwest Iowa (HPSI). The organization was formed to share ideas, capital, and resources and to assist in the containment of healthcare costs, while improving the quality of healthcare being delivered in the member hospital service areas. Each of the three members purchase mobile scanning and other services from the organization.

Below is a summary of the Hospital's transactions with HPSI and year end balances involving the 28E organization:

| | <u>2015</u> | <u>2014</u> |
|----------------------------------------|-------------------|-------------------|
| Services purchased from HPSI | \$ <u>182,897</u> | \$ <u>121,844</u> |
| Services and supplies provided to HPSI | \$ <u>187,976</u> | \$ <u>155,713</u> |
| Amount due from HPSI | \$ <u>238,349</u> | \$ <u>231,985</u> |
| Member share of net assets | \$ <u>491,230</u> | \$ <u>465,322</u> |

The member share of net assets is included in other noncurrent assets and the amount due from HPSI is included in other receivables on the balance sheet. The Hospital has no ongoing financial interest in or responsibility to HPSI, other than that disclosed above. Financial statements of HPSI will be on file at the Hospital and the Office of the State Auditor.

Cass County Health System Foundation

Cass County Health System Foundation is a separate not-for-profit organization with an independent board of directors. The Hospital is the sole beneficiary of the Foundation. During the year ended June 30, 2015, contributions received from this organization were approximately \$21,300 (\$41,000 for 2014).

NOTE M - CASS COUNTY MEDICAL CLINICS

The Hospital and local physicians developed a not-for-profit corporation, Cass County Medical Clinics, Inc. (CCMC), to operate three local medical practices (Atlantic Medical Center, Eye Associates and Southwest Iowa Surgery). CCMC leases medical office space, and purchases medical services and supplies from the Hospital. CCMC also purchases health insurance coverage through the Hospital's self-funded group health insurance plan. The Hospital provided start up and operating capital to CCMC over several years, for the benefit of the community. During the year ended June 30, 2015, the Hospital recorded an allowance of \$180,000 against the advances (\$180,000 for 2014). The operations of CCMC are managed by the Hospital and physicians. The Hospital has pledged to support CCMC as may be necessary in the future. As of July 1, 2015, Southwest Iowa Surgery became a department of the Hospital (Note O).

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE M - CASS COUNTY MEDICAL CLINICS - Continued

The Hospital contracts with the physicians of CCMC-Atlantic Medical Center for the operation of its four rural health clinics. In addition, the Hospital began to purchase emergency room physician coverage during fiscal year 2013. The Hospital purchases the physician services based on a budgeted amount, set prior to the start of each year. After the completion of the year, an analysis is prepared to determine any net settlement.

Transactions between the Hospital and CCMC are listed below:

| | <u>2015</u> | <u>2014</u> |
|-------------------------------------------------|---------------------|---------------------|
| <u>CCMC purchases from Hospital</u> | | |
| Rent of medical office space | \$ 101,824 | \$ 65,274 |
| Medical services, insurance, and other expenses | 149,063 | 132,667 |
| Health insurance | <u>260,298</u> | <u>267,606</u> |
| | <u>\$ 511,185</u> | <u>\$ 465,547</u> |
| <u>Hospital purchases from CCMC</u> | | |
| Physician clinic services | \$ 2,400,000 | \$ 2,345,000 |
| Physician emergency room services | <u>392,660</u> | <u>441,945</u> |
| | <u>\$ 2,792,660</u> | <u>\$ 2,786,945</u> |

Following is a schedule of the investment in CCMC as of June 30:

| | <u>2015</u> | <u>2014</u> |
|--------------------------------------------------------------|-------------------|------------------|
| Purchases of physician practices | \$ 84,944 | \$ 84,944 |
| Advances of operating capital, and unpaid rent and insurance | <u>87,412</u> | <u>7,248</u> |
| | <u>\$ 172,356</u> | <u>\$ 92,192</u> |

NOTE N - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description: As required by state law, the Hospital offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The fully insured plan is a part of the plan offered to all Hospital employees, and the retirees must pay the full cost of the health insurance premium equal to that charged for current employees. There are 238 active employees and 15 retirees currently covered by the health insurance plan.

Funding Policy: The Hospital does not set aside funds to pay for any OPEB liability. Any Hospital costs of an implicit health insurance premium rate subsidy are charged to expense in the year paid.

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE N - OTHER POST EMPLOYMENT BENEFITS (OPEB) - Continued

Net OPEB Obligation: Management of the Hospital considers any OPEB obligation, which may exist, to be immaterial. Therefore the Hospital has elected to not obtain an actuarial evaluation of the OPEB liability.

Generally accepted accounting principles, established under GASB Statement No. 45, require that an actuarial or alternative computation of a liability be completed. The independent auditor's report regarding the financial statements has been qualified as a result of not obtaining the required evaluation and not recording any potential material OPEB liability.

NOTE O - COMMITMENTS AND CONTINGENCIES

Self-Funded Health Insurance

The Hospital has established an employee health insurance program. Under the self-insured plan, the Hospital pays claims up to maximum limits and carries stop loss insurance for claims in excess of the limits. The estimated amount of unpaid claims at June 30, 2015 is \$200,000 (\$200,000 at June 30, 2014), which is reported in other current liabilities.

Construction in Progress

As of June 30, 2015, the Hospital incurred costs totaling \$197,109, primarily for the planning of construction and remodeling project of the existing facility. The estimated cost of the project is \$3.5 million. The project will be financed with internally generated funds.

Computer System Project and Equipment

As of June 30, 2015, the Hospital incurred fees of \$90,074 for various computer hardware and software applications, and equipment that had not been completed and placed in service. The estimated cost to complete the items is \$66,000.

Notes Receivable

Reported as part of other noncurrent assets on the balance sheets are notes receivable with a balance of \$80,083 as of June 30, 2015 (\$88,049 as of June 30, 2014). The notes receivable represent funds advanced under agreements with physicians who have begun to practice in the community. The agreements include commitments by the physicians to provide medical services in the community for a specified period of years. In exchange for the commitments of time and services, the Hospital will forgive the notes over the terms of the commitments.

Risk Management

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Cass County Memorial Hospital is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the past three years.

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE O - COMMITMENTS AND CONTINGENCIES - Continued

Subsequent Events

As of July 1, 2015, the Southwest Iowa Surgery (SIS) division of Cass County Medical Clinics was transferred to, and became a department of Cass County Memorial Hospital (CCMH). The assets, liabilities and unrestricted net deficit (totaling (\$391,269)) were combined with those of CCMH. If SIS had been transferred as of July 1, 2014, the 2015 financial statements of CCMH would have shown \$898,354 more revenue and \$934,093 more expense.

The Hospital has evaluated all subsequent events through December 9, 2015, the date the financial statements were available to be issued.

NOTE P - ACCOUNTING CHANGE/RESTATEMENT

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB No. 27 was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Beginning net position was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

| | <u>Net Position</u> |
|----------------------------------------------------------------------------------------------------------|-------------------------|
| Net position June 30, 2014, as previously reported | \$ 31,694,832 |
| Net pension liability at June 30, 2014 | (13,000,425) |
| Deferred outflows of resources related to contributions made after the July 30, 2013 measurement date | <u>1,268,838</u> |
| Net position July 1, 2014, as restated | <u>\$ 19,963,245</u> |

NOTE Q - RECLASSIFICATIONS

Certain amounts or presentations in the June 30, 2014 statements may have been reclassified to conform to the June 30, 2015 presentation. Ending net assets remained unchanged as a result of any reclassifications.

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REQUIRED SUPPLEMENTARY INFORMATION

CASS COUNTY MEMORIAL HOSPITAL
Budgetary Comparison Schedule
Year Ended June 30, 2015

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a reconciliation between reported amounts and the modified accrual basis used to prepare the budget. The adjustments result from accounting for interest and net position differently for financial statement and budget purposes. For the year ended June 30, 2015, the Hospital's expenditures exceeded the amount budgeted.

| | Per Financial Statements | | |
|---------------------------|--------------------------|---------------------|----------------------|
| | Unrestricted Fund | Restricted Fund | Total |
| Amount raised by taxation | \$ 2,183,490 | \$ -- | \$ 2,183,490 |
| Other revenues | 41,837,405 | -- | 41,837,405 |
| Transfers in (out), net | <u>378</u> | <u>(378)</u> | <u>--</u> |
| | 44,021,273 | (378) | 44,020,895 |
| Expenses | <u>39,247,589</u> | <u>--</u> | <u>39,247,589</u> |
| Net | 4,773,684 | (378) | 4,773,306 |
| Balance beginning of year | <u>17,945,857</u> | <u>2,017,388</u> | <u>19,963,245</u> |
| Balance end of year | <u>\$ 22,719,541</u> | <u>\$ 2,017,010</u> | <u>\$ 24,736,551</u> |

| | Total Per Financial Statements | Budget Adjustments | Budget Basis | Adopted Budget |
|---------------------------|--------------------------------|----------------------|----------------------|----------------------|
| Amount raised by taxation | \$ 2,183,490 | \$ -- | \$ 2,183,490 | \$ 2,142,730 |
| Other revenues | <u>41,837,405</u> | <u>1,668,121</u> | <u>43,505,526</u> | <u>37,919,151</u> |
| | 44,020,895 | 1,668,121 | 45,689,016 | 40,061,881 |
| Expenses | <u>39,247,589</u> | <u>1,668,121</u> | <u>40,915,710</u> | <u>37,999,400</u> |
| Net | 4,773,306 | -- | 4,773,306 | 2,062,481 |
| Balance beginning of year | <u>19,963,245</u> | <u>11,233,459</u> | <u>31,196,704</u> | <u>31,196,704</u> |
| Balance end of year | <u>\$ 24,736,551</u> | <u>\$ 11,233,459</u> | <u>\$ 35,970,010</u> | <u>\$ 33,259,185</u> |

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL
Schedule of the Hospital's Proportionate Share of the Net IPERS Pension Liability
June 30, 2015

| | <u>Required Information</u> |
|-------------------------------------------------------------------------------------------------------------------|---------------------------------|
| Hospital's proportion of the net pension liability | 0.212785% |
| Hospital's proportionate share of the net pension liability | \$ 8,612,000 |
| Hospital's covered-employee payroll | \$ 14,256,000 |
| Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 60.41% |
| Plan fiduciary net position as a percentage of the total pension liability | 87.61% |

Note - GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Hospital will present information for those years for which information is available. The amounts presented are from the previous IPERS June 30 fiscal year. Amounts reported are rounded.

See accompanying independent auditor's report.

CASS COUNTY MEMORIAL HOSPITAL
Schedule of Hospital IPERS Pension Contributions
Year Ended June 30,

| | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|-----------------------------------------------------------------------|---------------------|---------------------|---------------------|---------------------|
| Statutorily required contribution | \$ 1,393,000 | \$ 1,272,000 | \$ 1,289,100 | \$ 1,175,300 |
| Contributions in relation to the statutorily required contribution | <u>(1,393,000)</u> | <u>(1,272,000)</u> | <u>(1,289,100)</u> | <u>(1,175,300)</u> |
| Contribution deficiency (excess) | <u>\$ --</u> | <u>\$ --</u> | <u>\$ --</u> | <u>\$ --</u> |
| Hospital's covered-employee payroll | \$ 15,604,000 | \$ 14,256,000 | \$ 14,869,000 | \$ 14,564,000 |
| Contributions as a percentage of covered-employee payroll | 8.93% | 8.93% | 8.67% | 8.07% |

Note - Amounts reported are rounded

See accompanying independent auditor's report.

| <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|---------------------|---------------------|-------------------|-------------------|-------------------|-------------------|
| \$ 1,008,600 | \$ 1,055,200 | \$ 992,200 | \$ 854,800 | \$ 667,300 | \$ 668,700 |
| <u>(1,008,600)</u> | <u>(1,055,200)</u> | <u>(992,200)</u> | <u>(854,800)</u> | <u>(667,300)</u> | <u>(668,700)</u> |
| <u>\$ --</u> | <u>\$ --</u> | <u>\$ --</u> | <u>\$ --</u> | <u>\$ --</u> | <u>\$ --</u> |
| \$ 14,513,000 | \$ 15,868,000 | \$ 15,626,000 | \$ 14,128,700 | \$ 11,605,000 | \$ 11,630,000 |
| 6.95% | 6.65% | 6.35% | 6.05% | 5.75% | 5.75% |

CASS COUNTY MEMORIAL HOSPITAL
Notes to Required Supplementary Information - Pension Liability
Year Ended June 30, 2015

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups - emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers - from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

CASS COUNTY MEMORIALHOSPITAL
Notes to Required Supplementary Information - Pension Liability
Year Ended June 30, 2015

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25% to 4.00%.
- Lowered the inflation assumption from 3.50% to 3.25%.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

* * *

SUPPLEMENTARY INFORMATION

CASS COUNTY MEMORIAL HOSPITAL
Patient Receivables
June 30,

Analysis of Aging:

| <u>Days Since Discharge</u> | <u>2015</u> | | <u>Not Restated</u> <u>2014</u> | |
|--------------------------------------------------|---------------------|-------------------------|------------------------------------|-------------------------|
| | <u>Amount</u> | <u>Percent to Total</u> | <u>Amount</u> | <u>Percent to Total</u> |
| 0 - 30 | \$ 2,894,164 | 38.3% | \$ 1,973,814 | 31.8% |
| 31 - 60 | 947,240 | 12.5 | 668,038 | 10.8 |
| 61 - 90 | 423,998 | 5.6 | 354,949 | 5.7 |
| 91 - 120 | 353,360 | 4.7 | 311,564 | 5.0 |
| 121 and over | 744,643 | 9.9 | 696,708 | 11.2 |
| | <u>5,363,405</u> | <u>71.0</u> | <u>4,005,073</u> | <u>64.5</u> |
| In hospital | <u>1,350,242</u> | <u>17.9</u> | <u>1,172,191</u> | <u>18.9</u> |
| Total hospital | <u>6,713,647</u> | <u>88.9</u> | <u>5,177,264</u> | <u>83.4</u> |
| Rural Health Clinic | <u>839,181</u> | <u>11.1</u> | <u>1,034,099</u> | <u>16.6</u> |
| | <u>7,552,828</u> | <u>100.0%</u> | <u>6,211,363</u> | <u>100.0%</u> |
| Less: | | | | |
| Allowance for doubtful accounts - hospital | 570,000 | | 386,000 | |
| Allowance for doubtful accounts - RHC | 335,000 | | 355,000 | |
| Allowance for contractual adjustments - hospital | <u>1,607,000</u> | | <u>1,061,000</u> | |
| | <u>\$ 5,040,828</u> | | <u>\$ 4,409,363</u> | |

Hospital Allowance for Doubtful Accounts:

| | <u>Year ended June 30,</u> | |
|-----------------------------------------------|----------------------------|--------------------------|
| | <u>2015</u> | <u>Not Restated 2014</u> |
| Balance, beginning | \$ 386,000 | \$ 450,000 |
| Provision for bad debts | 1,769,348 | 2,881,265 |
| Recoveries of accounts previously written off | <u>446,880</u> | <u>414,587</u> |
| | <u>2,602,228</u> | <u>3,745,852</u> |
| Accounts written off | <u>2,032,228</u> | <u>3,359,852</u> |
| Balance, ending | <u>\$ 570,000</u> | <u>\$ 386,000</u> |

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL
Other Receivables/Inventory/Prepaid Expense
June 30,

| | <u>2015</u> | <u>Not Restated 2014</u> |
|-------------------------------------|---------------------|----------------------------------|
| <u>Other Receivables</u> | | |
| Shared services | \$ 141,196 | \$ 125,361 |
| Health Partners of Southwest Iowa | 238,349 | 231,985 |
| Lifeline | 20,119 | 8,146 |
| Southwest Iowa Mental Health Center | 1,151,524 | 882,327 |
| Other | <u>418,853</u> | <u>490,155</u> |
| | <u>\$ 1,970,041</u> | <u>\$ 1,737,974</u> |
| <u>Inventory</u> | | |
| General stores | \$ 62,717 | \$ 71,825 |
| Pharmacy | 476,652 | 435,643 |
| Laboratory | 88,252 | 74,927 |
| Rural Health Clinic | 15,000 | 15,000 |
| Dietary | 7,158 | 6,285 |
| Fuel oil | <u>9,698</u> | <u>9,773</u> |
| | <u>\$ 659,477</u> | <u>\$ 613,453</u> |
| <u>Prepaid Expense</u> | | |
| Dues | \$ 17,934 | \$ 17,490 |
| Insurance | 43,208 | 53,128 |
| Maintenance agreements and other | <u>555,087</u> | <u>561,011</u> |
| | <u>\$ 616,229</u> | <u>\$ 631,629</u> |

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL
Patient Service Revenue
Year ended June 30,

| | <u>2015</u> | <u>Not Restated 2014</u> |
|---------------------------------|----------------------|----------------------------------|
| Daily Patient Services: | | |
| Medical and surgical | \$ 2,005,587 | \$ 1,633,681 |
| Obstetric | 266,723 | 218,714 |
| Intensive care | 638,676 | 465,007 |
| Nursery | 150,985 | 140,126 |
| Psychiatric services | <u>1,564,991</u> | <u>1,523,161</u> |
| | 4,626,962 | 3,980,689 |
| Other Nursing Services: | | |
| Operating room | 6,383,564 | 5,792,071 |
| Recovery room | 847,837 | 811,509 |
| Delivery and labor rooms | 294,608 | 269,490 |
| Central services and supply | 2,674,920 | 3,071,388 |
| Intravenous therapy | 455,352 | 379,752 |
| Emergency service | 3,143,085 | 2,551,975 |
| Oncology service | 270,165 | 254,189 |
| Enterstomal therapy | <u>154,012</u> | <u>120,650</u> |
| | 14,223,543 | 13,251,024 |
| Other Professional Services: | | |
| Emergency room physicians | 1,703,266 | 1,266,267 |
| Laboratory | 8,025,906 | 6,960,103 |
| Blood bank | 94,183 | 76,792 |
| Electrocardiology | 293,798 | 235,303 |
| Cardiac stress testing | 163,129 | 131,794 |
| Ambulatory electrocardiology | 156,237 | 142,418 |
| Radiology | 2,606,407 | 2,330,812 |
| CT scanning | 4,317,728 | 3,584,566 |
| MRI scanning | 2,292,247 | 1,437,280 |
| Nuclear medicine and ultrasound | 1,828,457 | 1,387,019 |
| Pharmacy | 7,350,230 | 6,301,018 |
| Anesthesia | 1,800,616 | 1,635,399 |
| Respiratory care | 1,246,391 | 1,075,424 |
| Physical therapy | 1,957,851 | 1,663,037 |
| Speech therapy | 242,378 | 198,288 |
| Occupational therapy | 497,369 | 331,992 |
| Cardiac rehabilitation | 410,400 | 284,507 |
| Diabetic center | 65,635 | 58,226 |
| Sleep study | 446,104 | 315,921 |
| Rural Health Clinics | <u>7,527,567</u> | <u>6,775,444</u> |
| | <u>43,025,899</u> | <u>36,191,610</u> |
| | <u>\$ 61,876,404</u> | <u>\$ 53,423,323</u> |

(continued next page)

CASS COUNTY MEMORIAL HOSPITAL
Patient Service Revenue - Continued
Year ended June 30,

| | <u>2015</u> | <u>Not Restated 2014</u> |
|----------------------|----------------------|----------------------------------|
| SUMMARY | | |
| Inpatient | \$ 6,723,597 | \$ 6,110,339 |
| Swing Bed | 2,335,495 | 1,536,529 |
| Psychiatric Services | 1,896,604 | 1,874,803 |
| Outpatient | 43,393,141 | 37,126,208 |
| Rural Health Clinics | <u>7,527,567</u> | <u>6,775,444</u> |
| | <u>\$ 61,876,404</u> | <u>\$ 53,423,323</u> |

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL
Revenue and Related Adjustments
Year ended June 30,

| | <u>2015</u> | <u>Not Restated 2014</u> |
|-------------------------------------------------------------|----------------------|----------------------------------|
| Net Patient Service Revenue: | | |
| Patient service revenue | \$ 61,876,404 | \$ 53,423,323 |
| Contractual adjustments - hospital | (22,621,881) | (16,026,751) |
| Provision for bad debts - hospital | (1,769,348) | (2,881,265) |
| Provision for contractual adjustment and bad debts - RHC | (853,759) | (641,394) |
| Uncompensated care | <u>(59,003)</u> | <u>(447,332)</u> |
| | <u>\$ 36,572,413</u> | <u>\$ 33,426,581</u> |
| Other Revenue: | | |
| Interest income on operating funds | \$ 23,745 | \$ 17,581 |
| Meals sold to employees and guests | 186,270 | 166,537 |
| Meals on wheels | 57,466 | 58,832 |
| Visiting physician clinic rent | 251,005 | 211,156 |
| Operating grants | 14,501 | 29,872 |
| Medical record transcripts | 1,820 | 2,167 |
| VHA participation | 48,650 | 43,339 |
| Biomedical service | 29,828 | 32,235 |
| Nursing education | 8,356 | 3,212 |
| Retail Pharmacy - 340B Program | 5,182,238 | 5,321,624 |
| Other | <u>80,614</u> | <u>73,411</u> |
| | <u>\$ 5,884,493</u> | <u>\$ 5,959,966</u> |

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL
Nursing Service Expenses
Year ended June 30,

| | <u>2015</u> | <u>Not Restated 2014</u> |
|----------------------------|---------------|----------------------------------|
| Nursing Administration: | | |
| Salaries and wages | \$ 211,193 | \$ 216,417 |
| Supplies and other expense | <u>3,104</u> | <u>3,510</u> |
| | 214,297 | 219,927 |
| In-Service Training: | | |
| Salaries and wages | 91,431 | 72,374 |
| Supplies and other expense | <u>67,084</u> | <u>44,356</u> |
| | 158,515 | 116,730 |
| Quality Assurance: | | |
| Salaries and wages | 259,401 | 235,312 |
| Supplies and other expense | <u>11,089</u> | <u>11,944</u> |
| | 270,490 | 247,256 |
| Nursing Supervision: | | |
| Salaries and wages | 354,800 | 289,238 |
| Supplies and other expense | <u>3</u> | <u>176</u> |
| | 354,803 | 289,414 |
| Medical and Surgical: | | |
| Salaries and wages | 1,140,317 | 1,040,857 |
| Supplies and other expense | <u>83,784</u> | <u>57,934</u> |
| | 1,224,101 | 1,098,791 |
| Psychiatric Services: | | |
| Salaries and wages | 642,211 | 658,828 |
| Professional fees | 213,674 | 267,174 |
| Supplies and other expense | <u>32,877</u> | <u>20,277</u> |
| | 888,762 | 946,279 |
| Intensive Care: | | |
| Salaries and wages | 290,590 | 317,738 |
| Supplies and other expense | <u>3,822</u> | <u>9,203</u> |
| | 294,412 | 326,941 |
| Obstetric: | | |
| Salaries and wages | 306,054 | 258,327 |
| Supplies and other expense | <u>32,911</u> | <u>30,404</u> |
| | 338,965 | 288,731 |
| Nursery: | | |
| Salaries and wages | 132,967 | 134,623 |

(continued next page)

CASS COUNTY MEMORIAL HOSPITAL
Nursing Service Expenses - Continued
Year ended June 30,

| | <u>2015</u> | <u>Not Restated 2014</u> |
|------------------------------|---------------------|----------------------------------|
| Operating Room: | | |
| Salaries and wages | \$ 579,531 | \$ 491,482 |
| Professional fees | 54,790 | 58,813 |
| Supplies and other expense | <u>452,222</u> | <u>200,860</u> |
| | 1,086,543 | 751,155 |
| Recovery Room: | | |
| Salaries and wages | 54,732 | 50,012 |
| Delivery and Labor Rooms: | | |
| Salaries and wages | 58,401 | 59,120 |
| Central Services and Supply: | | |
| Salaries and wages | 32,240 | 29,666 |
| Supplies sold to patients | 826,429 | 614,557 |
| Supplies and other expense | <u>244,198</u> | <u>8,089</u> |
| | 1,102,867 | 652,312 |
| Intravenous Therapy: | | |
| Solutions | 9,846 | 9,071 |
| Supplies and other expense | <u>69,455</u> | <u>55,535</u> |
| | 79,301 | 64,606 |
| Emergency Room: | | |
| Salaries and wages | 478,216 | 410,118 |
| Supplies and other expense | <u>71,545</u> | <u>55,233</u> |
| | 549,761 | 465,351 |
| Outpatient Clinics: | | |
| Salaries and wages | 469,528 | 456,859 |
| Supplies and other expense | <u>33,626</u> | <u>39,327</u> |
| | <u>503,154</u> | <u>496,186</u> |
| | <u>\$ 7,312,071</u> | <u>\$ 6,207,434</u> |

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL
Other Professional Service Expenses
Year ended June 30,

| | <u>2015</u> | <u>Not Restated 2014</u> |
|-------------------------------|----------------|----------------------------------|
| Emergency Room Physicians: | | |
| Salaries and wages | \$ 340,879 | \$ 196,950 |
| Professional fees | <u>481,816</u> | <u>731,228</u> |
| | 822,695 | 928,178 |
| Laboratory: | | |
| Salaries and wages | 713,637 | 677,127 |
| Professional fees | 388,838 | 348,154 |
| Supplies and other expense | 354,314 | 382,805 |
| Cost of chemistry reagents | <u>336,127</u> | <u>371,116</u> |
| | 1,792,916 | 1,779,202 |
| Blood Bank: | | |
| Cost of blood | 101,558 | 87,400 |
| Electrocardiology: | | |
| Salaries and wages | 12,738 | 10,932 |
| Cardiac Stress Testing: | | |
| Salaries and wages | 7,747 | 6,179 |
| Professional fees | 980 | 1,064 |
| Supplies and other expense | <u>1,313</u> | <u>775</u> |
| | 10,040 | 8,018 |
| Ambulatory Electrocardiology: | | |
| Salaries and wages | 10,793 | 11,154 |
| Purchased services | 6,750 | 8,936 |
| Supplies and other expense | <u>77</u> | <u>172</u> |
| | 17,620 | 20,262 |
| Radiology: | | |
| Salaries and wages | 362,142 | 334,228 |
| Professional fees | 5,732 | 5,184 |
| Cost of film | 638 | 578 |
| Supplies and other expense | <u>236,749</u> | <u>318,309</u> |
| | 605,261 | 658,299 |
| CT and MRI Scanning: | | |
| Salaries and wages | 134,398 | 127,263 |
| Purchased services | 17,466 | 238,822 |
| Supplies and other expense | <u>456,177</u> | <u>159,773</u> |
| | 608,041 | 525,858 |

(continued next page)

CASS COUNTY MEMORIAL HOSPITAL
Other Professional Service Expenses - Continued
Year ended June 30,

| | <u>2015</u> | <u>Not Restated 2014</u> |
|----------------------------------|------------------|----------------------------------|
| Nuclear Medicine and Ultrasound: | | |
| Salaries and wages | \$ 114,679 | \$ 105,987 |
| Purchased services | 181,817 | 134,628 |
| Supplies and other expense | <u>37,172</u> | <u>41,805</u> |
| | 333,668 | 282,420 |
| Pharmacy: | | |
| Salaries and wages | 625,215 | 588,291 |
| Drugs | 1,125,160 | 1,145,743 |
| Supplies and other expense | <u>209,432</u> | <u>182,932</u> |
| | 1,959,807 | 1,916,966 |
| Retail Pharmacy-340B Program: | | |
| Purchased services | 1,764,971 | 1,949,041 |
| Supplies and other expense | <u>1,509,403</u> | <u>1,617,509</u> |
| | 3,274,374 | 3,566,550 |
| Anesthesia: | | |
| Professional fees | 648,134 | 597,788 |
| Supplies and other expense | <u>27,886</u> | <u>1,601</u> |
| | 676,020 | 599,389 |
| Respiratory Care: | | |
| Salaries and wages | 225,849 | 227,784 |
| Oxygen | 18,817 | 20,329 |
| Supplies and other expense | <u>7,817</u> | <u>8,951</u> |
| | 252,483 | 257,064 |
| Physical Therapy: | | |
| Salaries and wages | -- | 5,316 |
| Professional fees | 689,095 | 619,301 |
| Supplies and other expense | <u>21,164</u> | <u>19,925</u> |
| | 710,259 | 644,542 |
| Occupational Therapy: | | |
| Salaries and wages | -- | 104 |
| Professional fees | 158,839 | 117,154 |
| Supplies and other expense | <u>20,495</u> | <u>12,298</u> |
| | 179,334 | 129,556 |

(continued next page)

CASS COUNTY MEMORIAL HOSPITAL
Other Professional Service Expenses - Continued
Year ended June 30,

| | <u>2015</u> | <u>Not Restated 2014</u> |
|-------------------------------------------------------|----------------|----------------------------------|
| Speech Therapy: | | |
| Professional fees | \$ 113,617 | \$ 113,248 |
| Supplies and other expense | 773 | 644 |
| | <u>114,390</u> | <u>113,892</u> |
| Cardiac Rehabilitation: | | |
| Salaries and wages | 157,153 | 153,155 |
| Supplies and other expense | 13,082 | 35,185 |
| | <u>170,235</u> | <u>188,340</u> |
| Diabetic Center: | | |
| Salaries and wages | 107,021 | 105,301 |
| Supplies and other expense | 5,753 | 6,761 |
| | <u>112,774</u> | <u>112,062</u> |
| Medical Records: | | |
| Salaries and wages | 316,553 | 302,283 |
| Supplies and other expense | 52,221 | 58,731 |
| Microfilming services purchased | 7,910 | 9,727 |
| | <u>376,684</u> | <u>370,741</u> |
| Medical Education - Community Orientation Program: | | |
| Supplies and other expense | 3,626 | 1,332 |
| Care Coordination: | | |
| Salaries and wages | 172,601 | 178,492 |
| Supplies and other expense | 25,497 | 23,112 |
| | <u>198,098</u> | <u>201,604</u> |
| Sleep Studies: | | |
| Purchased services | 104,250 | 64,875 |
| Clinical Nutrition: | | |
| Salaries and wages | 85,023 | -- |
| Supplies and other expense | 3,055 | -- |
| | <u>88,078</u> | <u>--</u> |

(continued next page)

CASS COUNTY MEMORIAL HOSPITAL
Other Professional Service Expenses - Continued
Year ended June 30,

| | <u>2015</u> | <u>Not Restated 2014</u> |
|---------------------------------|----------------------|----------------------------------|
| Rural Health Clinic - Atlantic: | | |
| Salaries and wages | \$ 1,911,236 | \$ 1,794,321 |
| Professional fees | 2,339,398 | 2,248,397 |
| Purchased services | 53,002 | 27,882 |
| Facility costs | 64,735 | 61,339 |
| Supplies and other expense | <u>311,172</u> | <u>250,211</u> |
| | 4,679,543 | 4,382,150 |
| Rural Health Clinic - Anita: | | |
| Salaries and wages | 114,690 | 87,661 |
| Professional fees | 22,710 | 27,722 |
| Facility costs | 20,412 | 20,084 |
| Supplies and other expense | <u>8,950</u> | <u>7,622</u> |
| | 166,762 | 143,089 |
| Rural Health Clinic - Massena: | | |
| Salaries and wages | 73,284 | 56,807 |
| Professional fees | 33,975 | 34,474 |
| Purchased services | 150 | -- |
| Facility costs | 5,683 | 9,822 |
| Supplies and other expense | <u>10,515</u> | <u>10,380</u> |
| | 123,607 | 111,483 |
| Rural Health Clinic - Griswold: | | |
| Salaries and wages | 104,759 | 66,012 |
| Professional fees | 58,314 | 60,617 |
| Facility costs | 19,602 | 20,403 |
| Supplies and other expense | <u>11,289</u> | <u>8,159</u> |
| | <u>193,964</u> | <u>155,191</u> |
| | <u>\$ 17,688,825</u> | <u>\$ 17,259,395</u> |

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL
General Service Expenses
Year ended June 30,

| | <u>2015</u> | <u>Not Restated 2014</u> |
|--------------------------------|---------------------|----------------------------------|
| Dietary: | | |
| Salaries and wages | \$ 437,229 | \$ 441,355 |
| Food | 258,904 | 228,106 |
| Supplies and other expense | <u>54,624</u> | <u>103,126</u> |
| | 750,757 | 772,587 |
| Operation of Plant: | | |
| Salaries and wages | 355,853 | 393,634 |
| Electricity | 187,174 | 173,892 |
| Natural gas and fuel oil | 100,611 | 123,334 |
| Water | 41,075 | 36,643 |
| Supplies and other expense | <u>224,030</u> | <u>301,034</u> |
| | 908,743 | 1,028,537 |
| Clinical Equipment: | | |
| Contracted services | 102,632 | 104,303 |
| Supplies and other expense | <u>6,407</u> | <u>4,746</u> |
| | 109,039 | 109,049 |
| Housekeeping: | | |
| Salaries and wages | 401,659 | 390,256 |
| Contracted management services | 220,484 | 225,698 |
| Supplies and other expense | <u>50,972</u> | <u>54,730</u> |
| | 673,115 | 670,684 |
| Laundry and Linen: | | |
| Salaries and wages | 30,347 | 25,257 |
| Contracted management services | 21,933 | 22,531 |
| Supplies and other expense | 70,303 | 66,063 |
| Linens | <u>1,724</u> | <u>1,404</u> |
| | <u>124,307</u> | <u>115,255</u> |
| | <u>\$ 2,565,961</u> | <u>\$ 2,696,112</u> |

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL
Fiscal and Administrative Service Expenses
Year ended June 30,

| | <u>2015</u> | Not Restated <u>2014</u> |
|------------------------------------|----------------|--------------------------------|
| Administrative Services: | | |
| Salaries and wages | \$ 410,030 | \$ 293,676 |
| Dues and subscriptions | 45,738 | 38,498 |
| Legal publications and advertising | 13,706 | 7,956 |
| Consulting fees | 112,177 | 84,116 |
| Physician recruiting | 290,292 | 274,082 |
| Supplies and other expense | <u>130,166</u> | <u>179,639</u> |
| | 1,002,109 | 877,967 |
| Fiscal Services: | | |
| Salaries and wages | 346,751 | 376,516 |
| Telephone | 55,085 | 53,083 |
| Freight and postage | 18,591 | 18,173 |
| Professional fees | 45,294 | 39,427 |
| Supplies and other expense | <u>164,196</u> | <u>162,878</u> |
| | 629,917 | 650,077 |
| Admissions: | | |
| Salaries and wages | 304,300 | 288,803 |
| Supplies and other expense | <u>9,289</u> | <u>10,600</u> |
| | 313,589 | 299,403 |
| Credit and Collections: | | |
| Salaries and wages | 181,633 | 183,771 |
| Supplies and other expense | 120,926 | 105,639 |
| Collection expense | <u>129,238</u> | <u>131,592</u> |
| | 431,797 | 421,002 |
| Information Systems: | | |
| Salaries and wages | 705,293 | 651,655 |
| Professional fees | 33,616 | 5,623 |
| Supplies and other expense | <u>446,191</u> | <u>495,201</u> |
| | 1,185,100 | 1,152,479 |
| Human Resources: | | |
| Salaries and wages | 220,984 | 235,729 |
| Supplies and other expense | <u>150,624</u> | <u>122,863</u> |
| | 371,608 | 358,592 |
| Public Relations: | | |
| Salaries and wages | 95,604 | 65,039 |
| Supplies and other expense | <u>113,899</u> | <u>116,803</u> |
| | 209,503 | 181,842 |

(continued next page)

CASS COUNTY MEMORIAL HOSPITAL
Fiscal and Administrative Service Expenses - Continued
Year ended June 30,

| | <u>2015</u> | Not Restated <u>2014</u> |
|------------------------------------------|---------------------|--------------------------------|
| Purchasing: | | |
| Salaries and wages | \$ 142,088 | \$ 133,437 |
| Supplies and other expense | <u>53,297</u> | <u>48,156</u> |
| | 195,385 | 181,593 |
| Employee Welfare: | | |
| Social Security tax | 1,022,398 | 947,194 |
| Iowa Public Employees' Retirement System | 1,321,494 | 1,233,977 |
| Pension adjustment | (920,527) | -- |
| Group health insurance | 1,779,095 | 1,746,896 |
| Workers' compensation insurance | 132,113 | 115,219 |
| Deferred compensation | 238,626 | 220,271 |
| Other | <u>154,754</u> | <u>113,966</u> |
| | 3,727,953 | 4,377,523 |
| Insurance: | | |
| Liability and property insurance | 154,890 | 175,201 |
| Wellness: | | |
| Supplies and other expense | 13,434 | 13,701 |
| Compliance: | | |
| Supplies and other expense | 30,099 | 9,588 |
| Customer Service: | | |
| Salaries and wages | 27,653 | 12,146 |
| Supplies and other expense | <u>100,775</u> | <u>111,231</u> |
| | 128,428 | 123,377 |
| Foundation: | | |
| Salaries and wages | <u>42,288</u> | <u>41,945</u> |
| | <u>\$ 8,436,100</u> | <u>\$ 8,864,290</u> |

Summary of Expenses

| | | |
|----------------------------|----------------------|----------------------|
| Salaries and wages | \$ 14,393,721 | \$ 13,289,537 |
| Employee benefits | 3,727,953 | 4,377,523 |
| Professional fees | 5,400,999 | 5,359,484 |
| Supplies and other expense | <u>12,480,284</u> | <u>12,000,687</u> |
| | <u>\$ 36,002,957</u> | <u>\$ 35,027,231</u> |

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL
Comparative Statistics
Year ended June 30,

| | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|-----------------------------------|-------------|-------------|-------------|-------------|-------------|
| Acute Care: | | | | | |
| Admissions | 617 | 540 | 590 | 620 | 611 |
| Discharges | 616 | 539 | 587 | 622 | 611 |
| Patient Days | 1,889 | 1,792 | 2,058 | 1,982 | 1,807 |
| Average Length of Stay | 3.07 | 3.32 | 3.51 | 3.19 | 2.96 |
| Average Occupied Beds | 5.2 | 4.9 | 5.6 | 5.4 | 5.0 |
| Swing Bed: | | | | | |
| Admissions | 207 | 164 | 189 | 229 | 208 |
| Discharges | 207 | 162 | 190 | 231 | 209 |
| SNF Days | 1,467 | 1,192 | 1,451 | 1,843 | 1,633 |
| Average Occupied Beds | 4.0 | 3.3 | 4.0 | 5.0 | 4.5 |
| Combined Average Occupied Beds | 9.2 | 8.2 | 9.6 | 10.4 | 9.5 |
| Psychiatric Unit: | | | | | |
| Admissions | 185 | 162 | 211 | 220 | 271 |
| Discharges | 187 | 168 | 214 | 214 | 274 |
| Patient Days | 986 | 1,023 | 1,021 | 1,098 | 976 |
| Average Occupied Beds | 2.7 | 2.8 | 2.8 | 3.0 | 2.7 |
| Total Average Occupied Beds | 11.9 | 11.0 | 12.4 | 13.4 | 12.2 |
| Nursery Days | 301 | 287 | 333 | 268 | 297 |
| Outpatient Occasions of Service | 55,725 | 50,065 | 52,664 | 54,418 | 54,145 |
| Physician Clinic Visits | 46,137 | 42,092 | 42,225 | 40,969 | 38,672 |

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL
Comparative Statements of Net Position
June 30,

| | <u>2015</u> | <u>Not Restated 2014</u> |
|----------------------------------------------------------------------|----------------------|----------------------------------|
| Current Assets: | | |
| Cash | \$ 19,809,427 | \$ 14,062,341 |
| Patient receivables, net | 5,040,828 | 4,409,363 |
| Other receivables | 1,970,041 | 1,737,974 |
| Inventory | 659,477 | 613,453 |
| Prepaid expense | 616,229 | 631,629 |
| Succeeding year property tax receivable | 2,172,000 | 2,143,000 |
| Internally designated assets | 995,494 | 874,941 |
| Total current assets | 31,263,496 | 24,472,701 |
| Other Assets: | | |
| Designated and restricted assets, net | 2,467,218 | 2,568,868 |
| Capital assets, net | 30,294,935 | 32,402,574 |
| Other noncurrent assets | 977,751 | 867,879 |
| Total other assets | 33,739,904 | 35,839,321 |
| Deferred Outflows of Resources | <u>1,084,716</u> | <u>--</u> |
| Total assets and deferred outflows of resources | <u>\$ 66,088,116</u> | <u>\$ 60,312,022</u> |
| Current Liabilities: | | |
| Current maturities of long-term debt | \$ 710,000 | \$ 695,000 |
| Accounts payable | 1,041,929 | 710,516 |
| Accrued expenses | 2,800,960 | 2,531,674 |
| Advance rent received | 209,900 | -- |
| Estimated third-party payor settlements | 1,776,000 | 1,082,000 |
| Total current liabilities | 6,538,789 | 5,019,190 |
| Capital Lease Obligations, Net | -- | -- |
| Bonds Payable, Net | 20,745,000 | 21,455,000 |
| Net Pension Liability | 8,611,571 | -- |
| Deferred Inflows of Resources | 5,456,205 | 2,143,000 |
| Net Position | <u>24,736,551</u> | <u>31,694,832</u> |
| Total liabilities, deferred inflows of resources and net position | <u>\$ 66,088,116</u> | <u>\$ 60,312,022</u> |

See Independent Auditor's Report.

| | Not Restated | | |
|----|-------------------|----------------------|----------------------|
| | 2013 | 2012 | 2011 |
| \$ | 11,889,026 | \$ 8,915,658 | \$ 7,256,381 |
| | 4,254,951 | 4,767,569 | 4,067,652 |
| | 1,703,386 | 1,534,699 | 872,088 |
| | 588,916 | 450,895 | 520,233 |
| | 501,536 | 550,649 | 521,870 |
| | 2,107,000 | 2,013,000 | 1,950,000 |
| | 2,093,415 | 2,060,917 | 486,059 |
| | <u>23,138,230</u> | <u>20,293,387</u> | <u>15,674,283</u> |
| | | | |
| | 3,617,065 | 6,559,492 | 22,588,859 |
| | 32,374,635 | 29,298,988 | 13,400,851 |
| | 918,938 | 1,046,326 | 924,221 |
| | <u>36,910,638</u> | <u>36,904,806</u> | <u>36,913,931</u> |
| | -- | -- | -- |
| | | | |
| \$ | <u>60,048,868</u> | <u>\$ 57,198,193</u> | <u>\$ 52,588,214</u> |
| | | | |
| \$ | 865,799 | \$ 872,942 | \$ 241,129 |
| | 1,745,422 | 1,586,575 | 616,749 |
| | 2,579,327 | 2,565,321 | 2,272,731 |
| | -- | -- | -- |
| | <u>436,000</u> | <u>751,000</u> | <u>449,000</u> |
| | 5,626,548 | 5,775,838 | 3,579,609 |
| | -- | 197,305 | 319,026 |
| | 22,150,000 | 22,830,000 | 23,500,000 |
| | -- | -- | -- |
| | 3,235,268 | 2,013,000 | 1,950,000 |
| | <u>29,037,052</u> | <u>26,382,050</u> | <u>23,239,579</u> |
| | | | |
| \$ | <u>60,048,868</u> | <u>\$ 57,198,193</u> | <u>\$ 52,588,214</u> |

CASS COUNTY MEMORIAL HOSPITAL
Comparative Statements of Revenues and Expenses
Year ended June 30,

| | <u>2015</u> | <u>Not Restated 2014</u> |
|----------------------------------------|----------------------|----------------------------------|
| Patient Service Revenue | \$ 61,876,404 | \$ 53,423,323 |
| Adjustments to Patient Service Revenue | <u>(25,303,991)</u> | <u>(19,996,742)</u> |
| Net Patient Service Revenue | 36,572,413 | 33,426,581 |
| Other Revenue | <u>5,884,493</u> | <u>5,959,966</u> |
| Total Revenue | 42,456,906 | 39,386,547 |
| Expenses | <u>39,247,589</u> | <u>38,241,539</u> |
| Operating Income (Loss) | 3,209,317 | 1,145,008 |
| Non-Operating Revenue, Net | 1,514,681 | 1,428,800 |
| Capital Grants and Contributions | <u>49,308</u> | <u>83,972</u> |
| Excess of Revenues Over Expenses | <u>\$ 4,773,306</u> | <u>\$ 2,657,780</u> |

See Independent Auditor's Report.

| | Not Restated | |
|---------------|---------------|---------------|
| 2013 | 2012 | 2011 |
| \$ 50,421,417 | \$ 46,792,586 | \$ 44,871,636 |
| (17,750,261) | (16,582,150) | (16,961,710) |
| 32,671,156 | 30,210,436 | 27,909,926 |
| 5,415,611 | 1,905,310 | 844,730 |
| 38,086,767 | 32,115,746 | 28,754,656 |
| 37,217,897 | 31,802,253 | 31,436,858 |
| 868,870 | 313,493 | (2,682,202) |
| 1,517,382 | 2,743,862 | 2,746,127 |
| 268,750 | 85,116 | 86,908 |
| \$ 2,655,002 | \$ 3,142,471 | \$ 150,833 |

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Trustees
Cass County Memorial Hospital
Atlantic, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Cass County Memorial Hospital, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Cass County Memorial Hospital's basic financial statements and have issued our report thereon dated December 9, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Cass County Memorial Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cass County Memorial Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cass County Memorial Hospital's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies: 15-I-A.

To the Board of Trustees
Cass County Memorial Hospital

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cass County Memorial Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II in the accompanying Schedule of Findings and Responses as items 15-II-A and 15-II-B.

Responses to Findings

Cass County Memorial Hospital's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. Cass County Memorial Hospital's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gmewold, Ben, Kuhn & Co. P.C.

Atlantic, Iowa
December 9, 2015

CASS COUNTY MEMORIAL HOSPITAL
Schedule of Findings and Responses
Year ended June 30, 2015

PART I - SIGNIFICANT DEFICIENCIES

15-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Hospital. This deficiency is common among most small rural Hospitals.

Recommendation: We recognize that it may not be economically feasible for the Hospital to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Hospital to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

* * *

PART II - REQUIRED STATUTORY REPORTING

15-II-A Certified Budget: Hospital expenditures during the year ended June 30, 2015 exceeded amounts budgeted by approximately \$2,916,000. The excess was caused by higher than expected expenses resulting from additional services performed.

Recommendation: We recommend the Hospital periodically compare the budgeted expenditures to actual during the year, so an amended budget can be filed timely if it appears expenditures will exceed the amounts budgeted.

Response: We will periodically review the actual expenditures in the future and file an amended budget if necessary.

Conclusion: Response accepted.

CASS COUNTY MEMORIAL HOSPITAL
Schedule of Findings and Responses - Continued
Year ended June 30, 2015

PART II - REQUIRED STATUTORY REPORTING - Continued

15-II-B Questionable Expenditures: During the audit, we noted a certain expenditure approved in the Board minutes that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979. The expense was as follows:

| <u>Paid to</u> | <u>Purpose</u> | <u>Amount</u> |
|--------------------------|--------------------------------|---------------|
| Employee Recreation Club | Awards and recognition banquet | \$ 1,000 |

Recommendation: We recommend that the Board continue to document the public purpose of such an expenditure before authorization is given.

Response: The expenditure is considered part of the employee benefit package and the Board feels it meets the requirements of public purpose as defined by the Attorney General's opinion dated April 25, 1979.

Conclusion: Response accepted.

15-II-C Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

15-II-D Business Transactions: During our audit, we noted no business transactions with Hospital employees or officials.

15-II-E Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

15-II-F Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

* * *